



Department of the Treasury

Audits to Assess Tax Administration at the Internal Revenue Service

Annual Plan

Fiscal Year 1999



IRS

Department of the Treasury
Internal Revenue Service

Document **10932** (12-1998)
Catalog Number 26938H
publish.no.irs.gov

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EXECUTIVE OVERVIEW

The Internal Revenue Service (IRS) collects over \$1.5 trillion annually to fund the nation's government. This is no small achievement, since it requires the processing of over 200 million returns, issuing over 80 million refunds, distributing over 1 billion forms and publications, and servicing over 110 million taxpayers. The IRS must continually strive to achieve these tasks while maintaining the highest level of integrity and assuring taxpayer privacy. In addition, the IRS must enforce tax laws to ensure that all parts of the taxpaying public pay the proper amount of tax.

In addition to these daily challenges, the IRS enters Fiscal Year (FY) 1999 facing some of the most extensive and complicated legislation since the Tax Reform Act of 1986. The Taxpayer Relief Act of 1997 imposes numerous tax law changes and will require extensive reprogramming of systems, changes to forms and instructions, and training for IRS employees. The IRS Restructuring and Reform Act of 1998 will result in enhanced taxpayer protection and rights and organizational changes intended to achieve a more efficient and responsive IRS. The Act was passed, due in part, to recent Congressional hearings which focused on the misuse of enforcement statistics and abusive treatment of taxpayers. Several taxpayers testified to unfair and unreasonable treatment by IRS employees.

Further complicating IRS' tax administration duties is the upcoming century date change, and how it will affect IRS computer systems. Like the rest of the government, the IRS is preparing its systems for the Year 2000 (Y2K). Every aspect of tax administration could be affected by the century date change since all IRS functions rely to some degree on automated computer processes.

To assist the IRS in meeting these challenges, as well as many other crucial tax administration initiatives, the Chief Inspector has developed a comprehensive audit program for Fiscal Year

1999. The audit program supports initiatives involving information technology programs, Year 2000 conversion plans, financial reviews, tax filing season activities, Government Performance and Results Act implementation, taxpayer protection and rights, and other critical IRS activities.

MISSION

The IRS Internal Audit organization is responsible for conducting reviews to promote integrity, economy, efficiency and effectiveness within the IRS. The Internal Audit function is under the direction of the Chief Inspector, who reports directly to the IRS Commissioner. Based on testimony given at the 1998 hearings, Congress concluded that the Office of the Chief Inspector does not have sufficient autonomy from the IRS to function as an effective oversight body. As a result, the IRS Restructuring and Reform Act of 1998 eliminates the Office of the Chief Inspector and establishes a new, independent Inspector General for Tax Administration within the Treasury Department. This provision is effective on January 19, 1999. At that date, the new Treasury Inspector General for Tax Administration (TIGTA) will assume the responsibility for auditing IRS functions, programs and activities, a responsibility currently held by the IRS' Office of the Chief Inspector.

The IRS Restructuring and Reform Act of 1998 charges the new Treasury Inspector General for Tax Administration with conducting audits, investigations and evaluations of IRS programs and operations to promote economic, efficient, and effective administration of the nation's tax laws and to prevent and detect fraud, waste, and abuse within IRS programs and operations.

The Treasury Inspector General for Tax Administration is specifically mandated to:

- conduct independent and objective audits, investigations and evaluations of IRS programs and operations (including the IRS Oversight Board);
- evaluate the adequacy and security of IRS technology on an ongoing basis;
- protect IRS against external attempts to corrupt or threaten its employees; and,
- investigate allegations of criminal and administrative misconduct.

To assist in carrying out these duties, the TIGTA will appoint an Assistant Inspector General for Auditing and an Assistant Inspector General for Investigations.

As part of the plan to transition to the Inspector General organization, the Chief Inspector prepared the following proposed mission statement for the auditing function of the TIGTA:

The auditing function of the Office of Treasury Inspector General for Tax Administration promotes the sound administration of the nation's tax laws by conducting comprehensive, independent performance and financial audits of IRS programs and operations to:

- *Assess efficiency, economy, effectiveness and program accomplishments;*
- *Ensure compliance with applicable laws and regulations; and,*
- *Prevent, detect, and deter fraud, waste, and abuse.*

INTRODUCTION

CURRENT ORGANIZATION

The Assistant Chief Inspector (Internal Audit) is under the general supervision of the Chief Inspector and is responsible for the development of the nationwide Internal Audit program as well as overseeing the audit program at the National Office. Each of the four IRS regions (Northeast, Southeast, Midstates and Western) has a Regional Inspector, also under the direction of the Chief Inspector. Positioned under the Regional Inspector is the Assistant Regional Inspector (Internal Audit), who is responsible for executing an assigned portion of the national audit program.

Internal Audit is responsible for providing IRS management with independent reviews and appraisals of all IRS programs, activities and operations, and reporting the results to management officials responsible for taking appropriate actions. In doing so, Internal Audit makes recommendations to improve the efficiency and effectiveness of programs and to assist IRS offices in carrying out their program and operational responsibilities.

FUTURE ORGANIZATION

The new auditing function of the Treasury Inspector General for Tax Administration will be under the direction of the Assistant Inspector General for Auditing (AIGA). While the new Audit organization will be initially set up to operate as a “typical” Inspector General operation, the direction of the program will ultimately be at the discretion of the new AIGA. It is envisioned that the new auditing function will make recommendations to improve tax administration services, strengthen controls over IRS programs and operations, and timely report on program and operational deficiencies. The auditing function will work with the Office of Assistant Inspector General for Investigations, as appropriate, in response to allegations of misconduct, fraud, waste and abuse. The auditing function also may conduct management and program evaluations focused on issues of concern to the IRS Commissioner, the IRS Oversight Board, Departmental officials, Congress and the general public.

MANDATORY AUDIT REQUIREMENTS

The audit work in this plan includes the mandatory work that is required to be conducted by the Treasury Inspector General for Tax Administration and the discretionary audit work that was planned by the IRS’ Internal Audit function. Mandatory work is conducted as required by Federal statute or regulation or at the request of Congress, the Oversight Board or the IRS

Commissioner. The IRS Restructuring and Reform Act of 1998 imposes several mandatory audit and reporting requirements, including coverage of the security and adequacy of information technology, taxpayer rights provisions, and the use of enforcement statistics. The Inspector General Act of 1978 also imposes mandatory requirements, such as conducting audits of contracts.

It is important to note that the amount of mandatory work to be performed, as identified in this plan, is merely an estimate. Much of the mandatory audit and reporting requirements result from newly passed legislation and will be performed for the first time by the new TIGTA in Fiscal Year 1999. Consequently, no baselines exist from which fairly accurate audit resource estimates can be made. Additionally, it is difficult to predict the volume of work that may be generated for the TIGTA as a result of requests from Congress, the Oversight Board and the Commissioner. For planning purposes, the mandatory workload estimates were calculated by reviewing legislative requirements, holding executive level discussions, and applying historical average staff day expenditures to the areas requiring audit coverage.

STRATEGIC PLANNING ACTIVITIES

The amount of discretionary work to be performed is dependent on the resources remaining after mandatory work is funded. The discretionary body of work was identified through a comprehensive, high level risk assessment process, which was designed to prioritize workload by focusing on the areas of greatest risk to the IRS. The inherent risks to the IRS include: protecting taxpayer rights; ensuring taxpayer privacy; reducing taxpayer burden; protecting revenue; and, effectively implementing information technology.

The risk assessment process is used to integrate professional judgement into assessing the probability that adverse conditions or events may occur. Risk assessments are executed through the strategic planning process. This process applies risk factors to key auditable areas in the IRS, and documents and summarizes results to aid audit management in selecting areas for coverage. Risk factors are the criteria used to identify the relative significance of, and the likelihood that, conditions or events may occur that adversely affect the organization. Some of the risk factors used in evaluating the risks associated with the IRS' auditable areas are stakeholder concerns, impact of new programs and tax legislation, reliability of internal control systems, and past audit reviews.

Risk factors for each auditable area are assigned a numeric ranking based on high, medium or low risk. In choosing areas for coverage, audit management primarily focuses on the areas with the highest risk ranking. Input from Inspection executives and top level management, current workload, and other factors are considered before a final decision is made. Auditable areas that are chosen for coverage are referred to as emphasis areas, and additional planning is performed to develop a specific body of work. Auditable areas that are not chosen for coverage are prioritized and may be used if additional audit work is needed.

Discretionary work also includes follow-up reviews and investigative assistance. Follow-up reviews are conducted to ensure corrective actions are taken and are effective in correcting previously identified conditions. In choosing follow-up reviews, audit management considers the significance of the original findings and the impact of not implementing corrective actions.

The audit function provides support to the Chief Inspector's investigative function to assist in combating fraud, waste and abuse at the IRS. In some cases, this investigative assistance is reactive, in that auditors are assigned to work with investigators on specific allegations of employee fraud and illegal acts. However, the assistance is often proactive, in that auditors work jointly with investigators to determine the existence of other employee misconduct or fraud, after known crimes have been profiled. The proactive approach involves extensive use of computer analyses to minimize the resource investment.

The discretionary workload estimates were calculated by applying average FY 1998 staff day expenditures to the audits planned in each emphasis area. The emphasis areas are listed in order of priority.

THE AUDIT PLAN

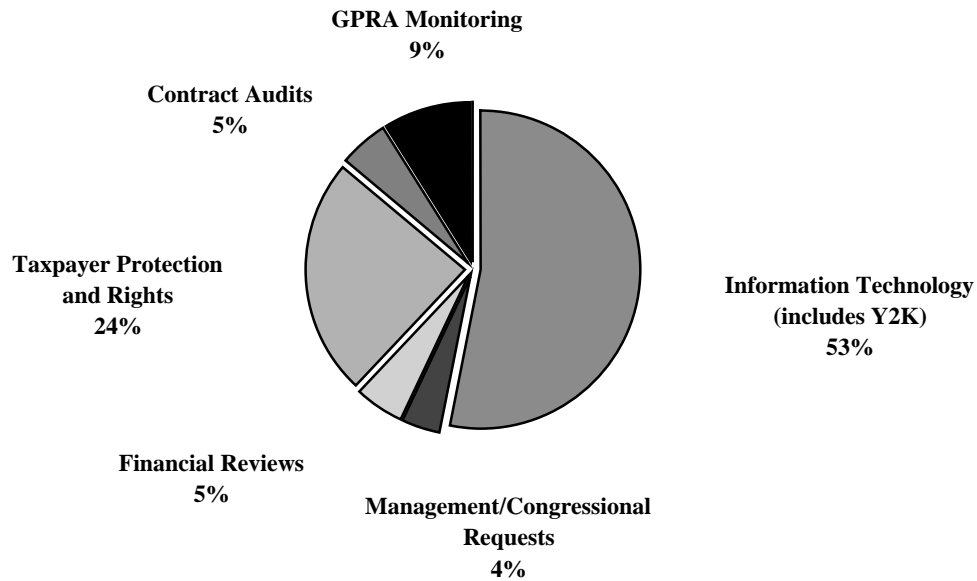
The plan includes the inherent risks, overall objectives and the individual audits for mandatory and discretionary audit work. Additional details on the individual audits can be found in Attachment 1. As stated earlier, the amount of mandatory coverage to be performed in FY 1999 is merely an estimate. Assessments are being made to determine the scope of audit programs for the mandatory coverage in the areas of financial reviews, taxpayer protection and rights, contract audits, and the Government Performance and Results Act (GPRA). Additionally, the need for some mandatory coverage, such as requests from the Commissioner or Oversight Board, cannot be foreseen, and therefore, the plan will be adjusted as necessary. Nevertheless, a commitment has been made to devote audit resources to those areas that will both serve to meet mandatory (legal and regulatory) audit responsibilities of the TIGTA and to assist the IRS in achieving its goals of providing service to all taxpayers and achieving productivity through a quality work environment.

The graphs on the following page depict the estimated resources committed to mandatory and discretionary work. The methodology typically used by the organization for job-costing audits entails performing preliminary research in the areas being reviewed in order to estimate staff time to be expended. Since preliminary research has not been performed at this time, average staff expenditures for newly initiated and follow-up audits were computed using FY 1998 data from the organization's management information system. These averages were used in estimating resource commitments for FY 1999. For bodies of work being performed for the first time, resource estimates were made based on the best available information.

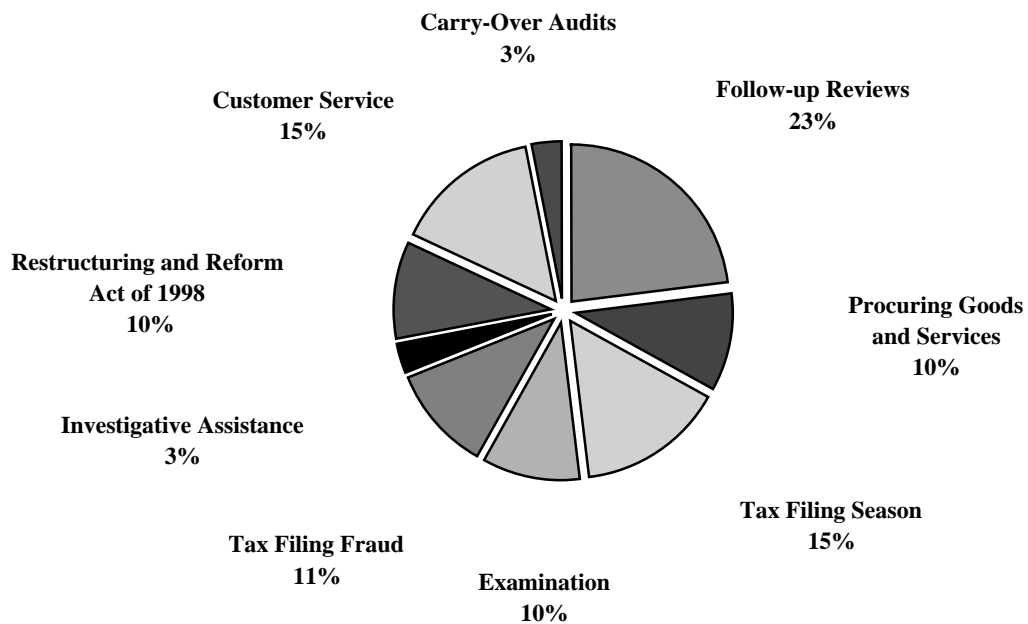
A table showing the planned discretionary work, in order of priority, can be found on page 8.

RESOURCE COMMITMENTS MANDATORY (48%) VERSUS DISCRETIONARY (52%)

MANDATORY COVERAGE (48%)



DISCRETIONARY COVERAGE (52%)



RESOURCE COMMITMENTS

PRIORITIZATION OF DISCRETIONARY COVERAGE

The areas identified through the strategic planning process as warranting audit coverage are prioritized in the following table. Based on the most recent resource estimates, there are seven emphasis areas that will be initiated in FY 1999. Since the amount of discretionary work that is initiated is dependent on the mandatory workload (which has not been fully developed), estimates of available resources will be adjusted accordingly. If additional resources become available, the additional emphasis areas will be used as audit inventory.

FY 1999 EMPHASIS AREAS

PROCESSING RETURNS AND IMPLEMENTING TAX LAW CHANGES DURING THE
TAX FILING SEASON
PROVIDING QUALITY TELEPHONE AND WALK-IN CUSTOMER SERVICE
IMPLEMENTING THE IRS RESTRUCTURING AND REFORM ACT OF 1998
SELECTING AND CONTROLLING RETURNS FOR EXAMINATION
MINIMIZING TAX FILING FRAUD
FOLLOWING UP ON PREVIOUS AUDIT REVIEWS
PROCURING GOODS AND SERVICES

ADDITIONAL EMPHASIS AREAS AS RESOURCES PERMIT

IMPLEMENTING THE INFORMATION RETURNS PROGRAM
ISSUING AND EFFECTIVENESS OF TAXPAYER NOTICES
VULNERABILITY ASSESSMENTS
 ADJUSTING TAXPAYER ACCOUNTS
 MANAGING SUSPENSE ACCOUNTS
 SELECTING CRIMINAL INVESTIGATION CASES
PROCESSING AT THE SERVICE CENTERS
PROCESSING REMITTANCES AT DISTRICT OFFICES AND SERVICE CENTERS
IMPLEMENTING CRIMINAL INVESTIGATION ACTIVITIES
DETERMINING QUALIFICATION FOR EXEMPT ORGANIZATION STATUS
APPROVING AND ADHERING TO EMPLOYEE PLANS
MANAGING REAL ESTATE, PROPERTY AND EQUIPMENT
MANAGING AND DEVELOPING HUMAN RESOURCES
CONDUCTING RESEARCH AND DEVELOPMENT
BUDGETING AND FINANCIAL MANAGEMENT

MANDATORY AUDIT COVERAGE

Information Technology

The IRS Restructuring and Reform Act of 1998 requires the Treasury Inspector General for Tax Administration to evaluate the adequacy and security of IRS technology on an ongoing basis. Reviews will be performed to assess the IRS' progress in implementing the Modernization Blueprint and to evaluate Information Service's success in meeting the business needs of operational functions.

Currently, one of the biggest concerns in the area of information technology is the effect the century date change (also known as Year 2000 or Y2K) will have on agency systems. Virtually every aspect of tax administration could be affected by the century date change since all IRS functions rely to some degree on automated computer processes. The Y2K project is estimated to cost the IRS approximately \$850 million through FY 1999 and requires updating and testing of about 75,000 computer application programs, 1,400 minicomputers, over 100,000 desktop computers, over 80 mainframe computers, and data communications networks comprising more than 50,000 individual product components. IRS management estimates the number of lines of programming code to be reviewed for possible changes is 50 million. If mission critical code is not made Year 2000 (Y2K) compliant, tax administration systems may not run, causing the processing of returns to be halted. If this happens, taxpayers may not timely receive refunds or notices, and account adjustments may not be processed properly.

As the date approaches, it is imperative that all major tax processing systems are made Y2K compliant to avoid processing shutdowns. The TIGTA will evaluate IRS' efforts to ensure all systems are compliant with Y2K requirements, including project management, assessment and inventory, software issues and hardware issues.

Ongoing and planned reviews of the following systems and initiatives will be completed in Fiscal Year 1999 to ensure IRS systems are adequate, secure, and ready for the century date change:

- Evaluating Information Services Projects:
 - ◇ Business Master File (BMF) Telefile - 1998 Expansion
 - ◇ Controls in the Electronic Federal Tax Payment System (EFTPS) Internet Application
 - ◇ Customer Service Call Router Pilot
 - ◇ Integrated Submission and Remittance Processing (ISRP) System Rollout (Phase III)
 - ◇ Service Center Mainframe Consolidation (Phase II)
 - ◇ Government Program Management Office (GPMO)
 - ◇ Establishment of the Performance Management Office
 - ◇ Effectiveness of Enhanced Quality Assurance Efforts in Systems Software Development
 - ◇ Progress of the Service's Electronic Tax Administration (ETA) Project
 - ◇ Telecommunications Costs and Capacities for Mainframe Consolidation

- ◇ Post Implementation Review of EFTPS
- ◇ Integrated Collection System/Automated Collection System (ICS/ACS) PRINT System
- Evaluating the Adequacy of Security Over Information Systems and Data:
 - ◇ Office of Systems Standards and Evaluation
 - ◇ Operational Security Controls
 - ◇ Logical Access and Security Controls
 - ◇ Telecommunications Security of IRS Computer Systems
 - ◇ Disaster Recovery and Business Resumption Initiatives
 - ◇ UNISYS 4800 Security
 - ◇ Follow-up: Effectiveness of the Service's Systems Security Program
- Evaluating Year 2000 Conversion Projects:
 - ◇ Effectiveness of the Service's Budget and Accounting for the Century Date Change
 - ◇ Year 2000 End-to-End Integration Testing Effort—Overall Planning and Test 1
 - ◇ Retired, Uncommitted and Archived Components
 - ◇ Management Controls for the Oversight of IRS Century Date Change Program
 - ◇ Year 2000 External Trading Partner Issues (Phase II)
 - ◇ Efforts to Prepare Tier 2 Systems for the Century Date Change
 - ◇ Year 2000 End-to-End System Integration Testing—Tests 2 and 3
 - ◇ Year 2000 Conversion Efforts for Tier 3 Infrastructure
 - ◇ Effectiveness of the Service's Testing Efforts for the Year 2000
 - ◇ Year 2000 Telecommunications and Tax Processing Commercial-off-the-Shelf (COTS) Software Inventories and Assessment
 - ◇ Year 2000 Telecommunications Conversion Efforts

Financial Reviews

Financial reviews consist of financial statement and financial related audits. Financial statement audits are designed to provide reasonable assurance of whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. The Chief Financial Officers Act of 1990 requires the Inspector General to audit agency financial statements in accordance with generally accepted government auditing standards. In Fiscal Year 1999, the General Accounting Office (GAO), with support from the Treasury Office of Inspector General, will conduct the financial statement audit of the IRS' Fiscal Year 1998 statements. GAO's audit of IRS' financial statements will also meet the requirements of the IRS Restructuring and Reform Act of 1998. As a result, neither Internal Audit nor the TIGTA will conduct the financial statement audits in FY 1999.

Financial related audits focus on an element(s), segment(s), or account(s) of a financial statement. This type of audit focuses on determining whether: (1) financial information is presented in accordance with established, or stated criteria; (2) the entity has adhered to specific financial compliance requirements; and, (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve control objectives.

Financial management continues to be a concern for IRS. The Senior Council for Management Controls' 1998 Annual Assurance Review included financial accounting of revenue as an open material weakness. Specifically, the Revenue Accounting Control System (RACS) does not conform to generally accepted financial standards of the federal government. This issue has been outstanding since 1995. In addition, the General Accounting Office has expressed concerns over the past several years regarding IRS financial management.

Several audit reviews relating to revenue accounting were initiated in FY 1998 and will continue in FY 1999. Additional FY 1999 financial related audits will be identified as part of the Chief Inspector's plan to transition to the TIGTA.

Reviews are ongoing in the following areas:

- Reconciliation of Subsidiary Ledger External to the Interim Revenue Accounting Control System (IRACS)
- Non-Master File Activity
- Controls Over the Service's User Fee Refunds
- Management of IRS Headquarters Accounting Activities
- Interim Revenue Accounting Control System
- Processing of Offer in Compromise Deposits
- Resolution of Frozen Master File Credits and Accounts Maintenance Transcripts
- Effectiveness of Controls Over Problem Receipts (Excess Collections and Unidentified Remittances)
- Validation and Reconciliation of Seized and Collateral Property

Taxpayer Protection and Rights

The IRS Restructuring and Reform Act of 1998 imposes many auditing and reporting requirements in relation to improving the treatment of taxpayers. These requirements are imposed on the Office of Treasury Inspector General for Tax Administration. However, the Chief Inspector will initiate the work in these areas in anticipation of our transition and to meet the reporting requirements of Congress.

- Denial of information requests—Required to audit a statistically valid sample of determinations made by the IRS to deny written requests to disclose information to taxpayers.

- Enforcement statistics—Required to report compliance with restrictions imposed on the use of enforcement statistics.
- Contacting taxpayers—Required to report on compliance with restrictions imposed on directly contacting taxpayers who have indicated they prefer their representatives be contacted.
- Approval to file tax liens—Required to report on compliance with procedures for approval of a notice of a lien.
- Approval to seize property—Required to report on compliance with procedures for seizure of property for collection of taxes.
- Taxpayers designated as illegal tax protestors—Required to report on compliance with restrictions on designating taxpayers as illegal tax protestors.
- Innocent spouse notification—Required to report on compliance with requirements to notify a spouse filing a joint return on collection activity involving the other spouse.
- Extension of assessment and collection statutes—Required to report on compliance with procedures for notifying taxpayers of their right to refuse to extend the statute of limitations.
- IRS Oversight Board—Required to report on unauthorized requests by the IRS Oversight Board for return or return information relating to specific taxpayers.
- Termination and mitigation of IRS employees—Required to notify Congress of terminations and mitigations with regard to violations by IRS employees and officials.

Contract Audits

The Inspector General Act of 1978 requires the Inspector General to conduct contract audits and report on the dollar value of disallowed, questioned and unsupported costs. A contract audit determines the eligibility, allocability, and reasonableness of costs claimed by contractors to assure the agency pays only for what it requests and receives.

To date, Internal Audit has not conducted these reviews. However, in preparation for the transition to the TIGTA, the Chief Inspector is coordinating with the Treasury Department's Office of Inspector General, which has current responsibility for conducting contract audits. A proposal as to the best approach for a contract audit program will be made to the new Inspector General.

Government Performance and Results Act

The Government Performance and Results Act of 1993 (GPRA) imposes significant changes to IRS' budgeting and policymaking culture. GPRA requires government agencies to set goals, measure performance, and report on their accomplishments through the development of strategic plans and annual performance plans. The IRS Strategic Plan and Budget, which includes the Annual Performance Plan, satisfies a major requirement of GPRA. It identifies IRS' mission, strategic objectives and goals, and strategies to achieve those goals. It also describes IRS' priorities for the next five years, key performance indicators (measures) and the Business Review process used in assessing achievement of those goals.

The General Accounting Office's coverage of GPRA implementation indicates that agencies are facing challenges in developing useful plans, specifically in identifying performance measures and obtaining data needed to establish goals and assess performance. Overall, the plans could be improved to better support congressional and agency decision making.

The IRS has developed a Strategic Plan and an Annual Performance Plan. However, due to the Service's modernization efforts and commitments made at the 1997 Senate Finance Committee Hearings, the measures are being re-evaluated. IRS is developing a new balanced performance measurement system that will focus on accomplishments in three major areas: business results, customer satisfaction and employee satisfaction. A preliminary version of the new measures is scheduled to be implemented in November 1998. The IRS Commissioner has indicated that it will take several years to achieve a fully acceptable set of balanced measures that can be used at all levels of the organization.

The Chief Inspector will initiate audits in FY 1999 to evaluate IRS' efforts in establishing new measures and adhering to GPRA requirements. This audit coverage will continue under the TIGTA organization and will adhere to GAO's guidance on reviewing agency performance plans. There are three reviews planned in the areas of the IRS' strategic planning and communication process, the appropriateness of IRS measures, and the reliability of performance data. Since Internal Audit has not provided coverage in this area in the past, additional work may be conducted as needed.

DISCRETIONARY AUDIT COVERAGE

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

The IRS' 1999 and 2000 Filing Seasons will be impacted by numerous organizational and legislative changes. Legislation enacted in 1997 and 1998 (Taxpayer Relief Act, Balanced Budget Act, and the IRS Restructuring and Reform Act of 1998) is the most extensive and complicated legislation IRS has faced since the Tax Reform Act of 1986. The Taxpayer Relief Act of 1997 contains over 800 changes to the Internal Revenue Code and nearly 300 new provisions. Extensive reprogramming of systems will be required. The IRS Restructuring and

Reform Act of 1998 imposes extensive restructuring of the IRS and its governing laws. In addition, planned improvements in customer service, such as expanded telephone service and revisions to forms and publications, will be implemented over the next few years. Such changes require additional planning and work to prepare for processing returns. The 1999 and 2000 filing seasons will be further complicated by ongoing efforts to meet Y2K deadlines, consolidate IRS mainframe processing to two sites, and implement National Performance Review recommendations.

Numerous reviews will be conducted before and during the 1999 and 2000 Filing Seasons to assess the IRS' ability to timely and effectively process returns, issue refunds, and answer taxpayer questions. The following planned and ongoing reviews will support the 1999 Filing Season:

- Early Implementation of Tax Laws for the 1999 Tax Filing Season
- Taxpayer Assistance on Key Tax Laws for the 1999 Tax Filing Season
- Information Systems Quality Assurance Over Key Tax Law Changes for the 1999 Tax Filing Season
- 1999 Tax Filing Season Readiness – Individual Master File
- 1999 Tax Filing Season Readiness – Non-Individual Master File
- Service's Use of Alternative Payment Methods for the 1999 Filing Season
- Walk-in Services for the 1999 Tax Filing Season
- Taxpayer Assistance on Key Tax Laws
- 1999 Tax Filing Season—Individual Master File
- 1999 Tax Filing Season—Non-Individual Master File

One review was initiated in late FY 1998 to support the 2000 Filing Season. This review will continue through FY 1999:

- Early Implementation of Legislative Provisions for the 2000 Filing Season (IMF & Non-IMF)

One additional review to support the 2000 Filing Season will be initiated in FY 1999:

- 2000 Filing Season Readiness

Providing Quality Telephone and Walk-in Customer Service

Providing better service to taxpayers is the key concept behind the Commissioner's plans to modernize the IRS. The IRS Restructuring and Reform Act of 1998 requires IRS to place greater emphasis on serving the public and meeting taxpayer needs. By January 1, 1999, the IRS will expand telephone service to seven days a week, 24 hours a day. Over the next several years, the IRS will be consolidating offices currently handling taxpayer service toll-free calls, the automated collection system, service center compliance, and service center account work. The majority of taxpayer issues will be resolved via telephone with emphasis on automated self service applications.

Although the IRS is working to provide better telephone service, face-to-face service remains an important part of providing quality customer service. The need to provide better face-to-face service with taxpayers was identified through the Vice President's National Performance Review initiatives. Budget constraints have forced IRS to close many walk-in sites and reduce service at others. The Service plans to expand and improve walk-in service during the next few years. To evaluate whether Customer Service operations are being effectively and economically improved to provide taxpayers with quality customer service in accordance with Congressional and administrative direction, the following reviews will be conducted in FY 1999:

- Implementation of Telephone Call Router
- Telephone Assistance Strategy for the Service's Business Units
- IRS' Readiness for Providing Walk-in Service for Business Units
- Internal Controls in the Walk-in Program
- Problem Resolution Program Case Resolution
- Toll Free Services During the 1999 Filing Season

The following reviews were started in FY 1998 and will continue to support our objective in FY 1999:

- Customer Service Efforts to Understand Customer Demands for Toll Free Telephone Services
- IRS Invoice Processing for Toll Free Service

Implementing the IRS Restructuring and Reform Act of 1998

Implementing the IRS Restructuring and Reform Act (RRA) of 1998 will result in the most extensive restructuring of IRS and its governing laws in the last 40 years. Legislative changes affecting taxpayers involve Roth IRAs, expanded relief for innocent spouses, confidentiality in discussing tax matters with an accountant, and others affecting families, businesses and corporations. Other changes affect IRS procedures and practices, such as the shift in burden of proof from the taxpayer to the agency.

As a result of the enactment of the RRA of 1998, IRS will be required to implement changes that will impact operations. It is important to oversee management's actions to ensure it is adequately planning for and implementing the required changes.

In preparation for the transition to the TIGTA, the Chief Inspector is developing an audit program to assess the IRS' ability to implement the RRA of 1998.

Selecting and Controlling Returns for Examination

Actions taken by IRS employees and managers in identifying, selecting, and conducting examinations of individual taxpayers should not in any way violate or abridge taxpayer rights or unnecessarily increase taxpayer burden. The Federal Managers' Financial Integrity Act process identified material weaknesses in relation to the examination of returns, including reporting of tax assessments and controls over case inventories and assignments. In 1997, the Senate Finance Committee heard testimony which addressed the misuse of enforcement statistics and abuse of taxpayer rights. During 1999, the Service plans to redesign the Examination Quality Measurement System and the Quality Review process to help identify and prevent these problems.

In Fiscal Year 1999, the following planned or ongoing reviews will be conducted to evaluate the propriety of actions taken by IRS employees and managers in identifying, selecting, and conducting examinations of individual taxpayers:

- Impact of the Revised Examination Quality Measurement Process on Taxpayer Rights and Burdens
- Control and Use of the Examination Returns Control System (ERCS)
- Reliability of Examination's Management Information System
- Program Accomplishment and Cost Effectiveness of the National Office Research and Analysis (NORA) and District Office Research and Analysis (DORA) Programs
- Substitute for Return Program
- Service Center Correspondence Examination Program

Minimizing Tax Filing Fraud

The IRS has significantly increased its efforts to guard against fraudulent refund claims over the past several years. The efforts include improved validation of taxpayer numbers (Social Security Numbers, Individual Taxpayer Identification Numbers, Adoption Taxpayer Identification Numbers), research and analysis of data to understand fraud, and Earned Income Tax Credit (EITC) awareness and assistance.

The integrity of Earned Income Tax Credit payments has been a concern to the IRS as well as outside stakeholders for many years. Massive EITC scams have been identified in the past and have included conspiracies in which hundreds of taxpayers were used by perpetrators of fraud. The latest and best available indicator of the EITC overpayment rate suggests a 32.08% to 34.28% overpayment rate.

Audits will be conducted in order to assess the IRS' ability to properly protect revenue and effectively manage and administer the EITC Program. The following planned and ongoing reviews will support our objective in FY 1999:

- Planning of the Revenue Protection Strategy

- Correspondence Examination's Fiscal Year 1998 Duplicate SSN Earned Income Tax Credit Initiative
- Annual Electronic Return Originator Suitability Screening Process for Processing Year 1999
- Rejected ELF (electronic filing) Analysis
- Enforcement Revenue Information System (ERIS)
- Efficiency and Effectiveness of the Electronic Fraud Detection System/Questionable Refund Detection Team (QRDT)
- Report of Revenue Protection Audit Coverage
- Follow-up: Effectiveness of Invalid Primary SSN

Following Up on Previous Audit Reviews

The Chief Inspector has committed to performing follow-up reviews in FY 1999 of previously audited IRS programs. This effort will continue during the transition to the TIGTA to ensure that sufficient actions have been taken by IRS management to correct deficiencies and strengthen internal controls where necessary. The follow-up reviews planned for FY 1999 will assess IRS' corrective actions regarding the tax compliance program, returns processing, information technology, management and administration, customer service, financial management and taxpayer advocacy.

Procuring Goods and Services

The purpose of the Procurement function is to acquire the appropriate goods and services, at the right time, consistent with laws, regulations, internal policies and sound judgment. The role of Procurement has increased with the Service's tax systems modernization efforts. As such, the total value of contracts has escalated during the past several years and multi-million dollar contracts are being administered by Procurement. Procurement also has competitively awarded over 100 major contracts without a protest loss.

IRS' Internal Audit and the General Accounting Office have provided audit coverage on selected procurement activities. Internal Audit's coverage, since FY 94, has included approximately 60 reports identifying more than 100 procurement related issues.

As the number of contracts and their total estimated value escalates, the need for audit coverage in the procurement area continues. In FY 1999, the following reviews will be initiated:

- IRS' Oversight of Modernization Efforts
- IRS' Effectiveness in Monitoring Telecommunication Activities
- Effectiveness of the Pre-award and Post-award practices for the Major Modernization Contracts
- IRS' Administration of the 8(a) Program
- Follow-up: Interagency Agreements
- Follow-up: Treasury Information Processing Support Services (TIPSS) Contract

Investigative Assistance

The investigation function often requires support from the audit program to effectively detect fraud, waste and abuse in IRS operations. When necessary, projects are initiated as a joint effort between the audit and investigative functions based on identification and matching of criteria developed from prior fraudulent activity or on allegations or tips from employees or taxpayers. The findings and results help to discourage the perpetuation of illegal and improper acts by heightening awareness in the IRS workforce of the need for a strong control environment. Uncovering fraud, waste and abuse will be an important function of the Treasury Inspector General for Tax Administration. As a result, the need for audit support on these projects is expected to continue.

INDIVIDUAL AUDITS

This section of the plan lists the individual audits and the audit objective for each planned review.

Information Technology

Evaluating Information Services Projects:

◇ **Review of the Business Master File (BMF) Telefile - 1998 Expansion**

Audit Objective: Assess whether existing management processes are effective for ensuring that the 1998 BMF Telefile program is successfully planned and implemented.

◇ **Review of Controls in the Electronic Federal Tax Payment System (EFTPS) Internet Application**

Audit Objective: Determine whether Service management establishes sufficient controls to ensure security and accuracy of EFTPS Internet enrollments and payments.

◇ **Review of the Customer Service Call Router (CSCR) Pilot**

Audit Objective: Assess whether the CSCR prototype will meet the needs of Customer Service to distribute incoming calls based on taxpayer problems, organization skill groups, and call volumes; whether the project is being managed in accordance with project management life cycle guidelines; and whether the IRS followed prescribed procurement guidelines and all legal and regulatory requirements in acquiring the contractor's services.

◇ **Review of the Integrated Submission and Remittance Processing (ISRP) System Rollout (Phase III)**

Audit Objective: Determine whether effective management processes are in place to ensure that problems identified during the system's pilot were adequately corrected, and that necessary actions have been accomplished to ensure a successful system rollout.

◇ **Review of the Service Center Mainframe Consolidation (Phase II)**

Audit Objective: Determine whether Service Center Mainframe Consolidation (SCMC) project management controls are adequate to ensure that the lessons learned during the pilot rollout at Kansas City Service Center are corrected before additional rollouts occur. Also, assess management actions to assure that the consolidation minimizes the impact on taxpayer rights and the critical changes to be implemented during the 1999 filing season. Finally, follow-up on the effectiveness of corrective actions taken as a result of prior audit reviews.

◇ **Review of the Government Program Management Office (GPMO)**

Audit Objective: Determine whether the GPMO serves as an effective control for overseeing the prioritization, selection and contract delivery of TSM projects.

◇ **Establishment of the Performance Management Office (PMO)**

Audit Objective: Determine whether the PMO serves as an effective control for measuring the effectiveness of information technology investments.

◇ **Effectiveness of Enhanced Quality Assurance Efforts in Systems Software Development**

Audit Objective: Assess the processes for ensuring that Quality Assurance reviews of systems software development are adequately and timely conducted.

◇ **Review of the Progress of the Service's Electronic Tax Administration (ETA) Project**

Audit Objective: Determine whether the ETA strategic plan and development and implementation schedules (both for the ETA request for proposal and internal initiative) are integrated with the IRS Modernization Blueprint. Also, determine the impact of ETA initiatives on legacy systems (EMS, ELF, and EFTPS) and whether the ETA strategy will ensure that the Service meets the Congressional mandate to process 80% of receipts electronically by 2007.

◇ **Review of Telecommunications Costs and Capacities for Mainframe Consolidation**

Audit Objective: Assess whether consolidation activities are effectively controlled to assure that telecommunications issues have been properly identified and addressed in a cost effective manner.

◇ **Post Implementation Review of the Electronic Federal Tax Payment System (EFTPS)**

Audit Objective: Determine whether the Service and its EFTPS partners implemented sufficient controls to ensure revenue is properly accounted for, management took effective corrective action on previously reported control and processing weaknesses, and management developed an effective strategy to increase voluntary EFTPS use.

◇ **Review of the Integrated Collection System/Automated Collection System (ICS/ACS) PRINT System**

Audit Objective: Assess the general controls over the ICS/ACS PRINT System to determine if they are sufficient to protect sensitive data.

Evaluating the Adequacy of Security Over Information Systems and Data:

◇ **Review of the Office of Systems Standards and Evaluation (SSE)**

Audit Objective: Determine whether the SSE serves as an effective control for promoting and enforcing security and information systems standards (including methods implemented for oversight of local and project specific implementation of these standards).

◇ **Review of Operational Security Controls**

Audit Objective: Evaluate the effectiveness of controls over support activities for major computer systems in the service and data centers. Focus on legal and procedural requirements, including controls requiring human interaction, such as incident handling, magnetic media responsibilities, and software management.

◇ **Review of Logical Access and Security Controls**

Audit Objective: Evaluate logical security controls over major systems. These controls include items such as identifying users, restricting access to data, and producing audit trails of user activity.

◇ **Review of the Telecommunications Security of IRS Computer Systems**

Audit Objective: Assess the adequacy of security requirements and controls for: access to local networks; securing physical points of entry to telecommunications systems (such as telephone closets and local telephone exchanges); securing the physical telecommunications lines used for transmitting tax return data; and encryption of data transmission.

◇ **Review of Disaster Recovery and Business Resumption Initiatives**

Audit Objective: Evaluate management's actions for: determining responsibilities for disaster recovery planning at the computing centers, service centers, and field locations; ensuring that plans are developed; and, determining whether disaster plans are tested.

◇ **Review of UNISYS 4800 Security**

Audit Objective: Evaluate the state of general system controls in the UNISYS consolidated environment and assess the Service's progress in meeting C2-level security requirements for the UNISYS 4800.

◇ **Follow-up Review of the Effectiveness of the Service's Systems Security Program**

Audit Objective: Determine whether prior findings have been corrected and management's actions have resulted in enhancing the Service's ability to ensure that sensitive information is adequately secured.

Evaluating Year 2000 Conversion Projects:

◇ **Review of the Effectiveness of the Service's Budget and Accounting for Century Date Change**

Audit Objective: Assess the Service's effectiveness in assessing and monitoring costs associated with Year 2000 projects.

◇ **Review of the Service's Year 2000 End-to-End Integration Testing Effort – Overall Planning and Test 1**

Audit Objective: Assess the Service's planning efforts for the End-to-End Integration Test (This review focuses on the execution of Test 1).

◇ **Review of Retired, Uncommitted, and Archived Components**

Audit Objective: Assess the Service's efforts to account for retired components, components for which no convert/retire decision has been made, components that have not been classified into one of the five Year 2000 conversion phases, and archived data/components.

◇ **Review of Management Controls for the Oversight of the IRS Century Date Change Program**

Audit Objective: Assess the Century Date Change Project Office's effectiveness in providing management oversight to the Service's Year 2000 efforts.

◇ **Review of External Trading Partners Y2K Readiness (Phase II)**

Audit Objective: Evaluate the Service's efforts to monitor the Y2K conversion of external data exchanges and follow up on findings addressed in the previous external trading partner audit.

◇ **Review of the Service's Efforts to Prepare its Tier 2 Systems for the Century Date Change**

Audit Objective: Evaluate several mission critical Tier 2 systems and determine whether the conversion efforts ensure that these systems will be operational in the next century.

◇ **Review of the Service's Year 2000 End-to-End System Integration Testing - Tests 2 and 3**

Audit Objective: Assess the effectiveness of the planning and execution of Tests 2 and 3 of the end-to-end testing efforts.

◇ **Review of the Service's Year 2000 Conversion Efforts for Tier 3 Infrastructure**

Audit Objective: Evaluate Information Systems and field and customer organizations' Tier 3 Year 2000 project management efforts to determine if the Service has assurance that its Tier 3 infrastructure will operate in the next century.

◇ **Review of Effectiveness of the Service's Testing Efforts for the Year 2000**

Audit Objective: Assess the effectiveness of the Service's testing efforts for the Year 2000 conversion and tax processing Commercial-off-the-Shelf products.

◇ **Review of the Year 2000 Telecommunications and Tax Processing Commercial-off-the-Shelf (COTS) Software Inventories and Assessment**

Audit Objective: Determine whether the Year 2000 inventory and assessment initiatives for the Service's telecommunications environment and tax processing COTS products are progressing as planned and goals are being achieved effectively and timely.

◇ **Review of Year 2000 Telecommunications Conversion Efforts**

Audit Objective: Determine whether the Year 2000 initiatives for the Service's telecommunications environment are progressing as planned and goals are being achieved effectively and timely.

Financial Reviews

◇ **Review of the Reconciliation of Subsidiary Ledger External to the Interim Revenue Accounting Control System (IRACS)**

Audit Objective: Determine whether the Service is effectively reconciling the General Ledger to its external subsidiaries.

◇ **Review of Non-Master File Activity**

Audit Objective: Evaluate the internal controls in place to ensure the Service complies with laws and regulations concerning the financial management, security, and data integrity of the Non-Master File account transactions.

◇ **Review of Controls over the Service's User Fee Refunds**

Audit Objective: Ensure manual refunds of fees not processed through the Master File are properly safeguarded and recorded on the Interim Revenue Accounting Control System.

◇ **Review of the Management of IRS Headquarters Accounting Activities**

Audit Objective: Determine whether there is an adequate system of controls, at the National Office level, to ensure accurately and timely reported Revenue Accounting activities.

◇ **Review of the Interim Revenue Accounting Control System (IRACS)**

Audit Objective: Evaluate the internal controls in place to ensure accurate financial management and data integrity.

◇ **Review of the Processing of Offer in Compromise (OIC) Deposits**

Audit Objective: Determine if the processing of OIC deposits ensures deposits are adequately protected against loss or theft and are applied properly to the General Ledger.

◇ **Resolution of Frozen Master File Credits and Accounts Maintenance Transcripts**

Audit Objective: Evaluate the controls over identifying and resolving frozen Master File credits of one million dollars or more.

◇ **Effectiveness of Controls Over Problem Receipts (Excess Collections and Unidentified Remittances)**

Audit Objective: Determine whether controls to properly process and timely resolve credits in the Excess Collections and Unidentified Remittances Files are functioning effectively.

◇ **Validation and Reconciliation of Seized and Collateral Property**

Audit Objective: Determine if seized, acquired and collateral property is properly accounted for on the Interim Revenue Accounting Control System (IRACS) and is adequately monitored and safeguarded.

Government Performance and Results Act (GPRA)

◇ **IRS Planning and Communication Process**

Audit Objective: Evaluate the effectiveness of the IRS planning and communication process (e.g., the Strategic Plan and Annual Performance Plan) in communicating organizational outcomes, how the outcomes are to be delivered, and how accomplishment of tax administration outcomes will be measured.

◇ **Appropriateness of IRS Measures**

Audit Objective: Evaluate the IRS' progress in developing interim and long term measures that will provide meaningful information concerning attainment of the IRS defined tax administration outcomes in conformance with GPRA requirements. Also, assess the implementation of the revised Examination Quality Measurement System (EQMS) and the Collection Quality Measurement System (CQMS) as they impact on the overall measures process.

◇ **Reliability of Performance Data**

Audit Objective: Evaluate the effectiveness of the IRS processes for assuring the validity (accuracy and relevance) of performance information used to measure the accomplishment of tax administration outcomes.

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

◇ **Early Implementation of Tax Laws for the 1999 Tax Filing Season**

Audit Objective: Evaluate the Service's scheduled plans to implement the tax legislative changes by: evaluating whether the Service has identified and scheduled the actions necessary to implement the tax provision; determining if appropriate Requests for Information Services (RIS) outlining necessary programming changes were prepared; and ensuring the Service has made plans to implement the National Performance Review recommendations impacting the 1999 filing season.

◇ **Review of Taxpayer Assistance on Key Tax Laws for the 1999 Tax Filing Season**

Audit Objective: Evaluate the effectiveness of Service efforts to assist individual and small business taxpayers through formal employee training and other instructional methods. Also, evaluate the efforts to improve taxpayer utilization of the TeleTax System.

◇ **Review of Information Systems Quality Assurance Efforts Over Key Tax Law Changes for the 1999 Tax Filing Season**

Audit Objective: With regards to the key legislative provisions relevant to the 1999 filing season, evaluate the effectiveness of the Service's process to: monitor the systems for assigning, controlling and completing Requests for Information Services (RISs); make the required programming changes; test programming changes; and, provide Product Assurance systems acceptability testing, unit testing, and other testing.

◇ **Review of the 1999 Tax Filing Season Readiness – Individual Master File**

Audit Objective: Evaluate the effectiveness of Service actions to provide individual taxpayers with revised tax forms and instructions; to revise computer programs, as necessary, to process forms; and to gather information necessary to monitor tax laws as related to key legislative provisions relevant to the 1999 Filing Season.

◇ **Review of the 1999 Tax Filing Season Readiness – Non-Individual Master File (IMF)**

Audit Objective: Assess the Service's processes to ensure that Non-IMF accounts are accurately and timely processed and that taxpayers have the necessary information to file returns that comply with laws and regulations.

◇ **Service's Use of Alternative Payment Methods for the 1999 Filing Season**

Audit Objective: Evaluate the effectiveness of Service efforts to improve customer service by utilizing the internet and providing for alternative payment methods.

◇ **Review of Walk-in Services for the 1999 Tax Filing Season**

Audit Objective: Evaluate the effectiveness of Service efforts to provide taxpayers better face to face service.

◇ **Review of Taxpayer Assistance on Key Tax Laws**

Audit Objective: Evaluate the effectiveness of Service efforts to assist individual and small business taxpayers on inquiries concerning key tax law provisions.

◇ **1999 Tax Filing Season—Individual Master File (IMF)**

Audit Objective: Evaluate the effectiveness of processing 1998 IMF tax returns and payments and providing taxpayers with assistance in filing their returns. In addition, evaluate the legislative changes on the accuracy and efficiency of Service processes and taxpayer ability to comply with the new legislative provisions.

◇ **1999 Tax Filing Season—Non-Individual Master File (Non-IMF)**

Audit Objective: Evaluate the effectiveness of processing 1998 Non-IMF tax returns and payments and providing taxpayers with assistance in filing their returns. In addition, evaluate the legislative changes on the accuracy and efficiency of Service processes and taxpayer ability to comply with the new legislative provisions.

◇ **Early Implementation of Legislative Provisions for the 2000 Filing Season (IMF & Non-IMF)**

Audit Objective: Evaluate Service effectiveness in assuring that taxpayers will have the information necessary (relative to the pertinent legislation) to properly file returns and that the Service will be able to properly process returns affected by the legislation during the 2000 Filing Season. Evaluate the Service's scheduled plans to implement the tax legislative changes. During this assessment, focus on seeing that the process of implementing tax law changes ensures timely and accurate forms, instructions, and program changes.

◇ **Review of the 2000 Filing Season Readiness**

Audit Objective: Evaluate the effectiveness of Service actions to provide taxpayers with revised tax forms, instructions and tax assistance on key provisions; and, to insure related computer programs are timely and effectively implemented through adequate review and test controls.

Providing Quality Telephone and Walk-in Customer Service

◇ **Implementation of Telephone Call Router**

Audit Objective: Evaluate whether the Call Router is implemented in accordance with government regulations and systems acquisition guidelines.

◇ **Telephone Assistance Strategy for Service's Business Units**

Audit Objective: Assess the IRS' readiness for transition to the telephone service that will be provided when the IRS reorganizes into four business units.

◇ **IRS' Readiness for Providing Walk-in Service for Business Units**

Audit Objective: Assess the IRS' readiness for transition to the walk-in service that will be provided when IRS reorganizes into four business units.

◇ **Effectiveness of Internal Controls in the Walk-in Program**

Audit Objective: Determine whether remittances are processed accurately and timely; evaluate the adequacy and accuracy of statistical measures of program performance; and, determine the adequacy and accuracy of the quality review controls over services provided to taxpayers. Also, determine what additional information needs to be captured so the program can be improved; evaluate the process and methodology used to schedule compliance resources for taxpayer service.

◇ **Review of the Problem Resolution Program (PRP) Case Resolution**

Audit Objective: Determine whether cases meeting PRP and Taxpayer Assistance order criteria are timely and properly processed.

◇ **Effectiveness of Toll Free Services During the 1999 Filing Season**

Audit Objective: Evaluate whether the Customer Service strategy to increase level of access has resulted in quality customer service in an economic manner.

◇ **Review of Customer Service Efforts to Understand Customer Demands for Toll Free Telephone Services**

Audit Objective: Evaluate Service efforts in understanding customer demand for toll free telephone services; and, to demonstrate the value of establishing a process to develop alternative strategies, data sources and techniques.

◇ **IRS Invoice Processing for Toll Free Service**

Audit Objective: Evaluate the Service's invoice review process to ensure that the Service is not being overcharged and pays only for toll-free telephone service actually used and to determine if the contractor's billing procedures accurately reflect Service usage and include appropriate discounts.

Selecting and Controlling Returns for Examination

◇ **Review of the Impact of the Revised Examination Quality Measurement Process on Taxpayer Rights and Burdens**

Audit Objective: Determine whether efforts to perform examinations infringe upon taxpayer rights and increase burden, and whether the newly revised Examination Quality Measurement System (EQMS) and Quality Review process properly identifies and corrects these problems.

◇ **Review of the Control and Use of the Examination Returns Control System (ERCS)**

Audit Objective: Evaluate management's corrective action to strengthen the controls over ERCS security, IDRS security, and unlocatable returns procedures. Also, evaluate the effect ERCS may have in enabling P-1-20 violations within Examination Division.

◇ **Review of the Reliability of Examination's Management Information System**

Audit Objective: Determine whether efforts to increase productivity goals reduced the reliability of program accomplishments, and whether processing of the Audit Information Management System (AIMS) data is accurate.

◇ **Review of the Program Accomplishment and Cost Effectiveness of the National Office Research and Analysis (NORA) and District Office Research and Analysis (DORA) Programs**

Audit Objective: Assess the program accomplishment and cost effectiveness of the NORA/DORA function.

◇ **Review of the Substitute for Return Program**

Audit Objective: Determine whether the Substitute for Return Program is effectively and efficiently identifying non-compliant taxpayers without increasing taxpayer burden or violating taxpayer rights.

◇ **Review of the Service Center Correspondence Examination Program**

Audit Objective: Evaluate the effectiveness of controls over selecting, initiating and disposing of correspondence audits in service centers.

Minimizing Tax Filing Fraud

◇ **Review of the Service's Planning of the Revenue Protection Strategy**

Audit Objective: Assess whether management effectively planned the Revenue Protection Strategy by establishing goals and objectives, methods of achieving and measuring accomplishments (outcomes), and a framework to coordinate and revise the plan as the Service's needs change.

◇ **Review of Correspondence Examination's Fiscal Year 1998 Duplicate SSN Earned Income Tax Credit (EITC) Initiative**

Audit Objective: Assess the effectiveness of Correspondence Examination's Duplicate Taxpayer Identification Number EIC Repeater Project in reducing the abuse of valid dependent SSNs by multiple taxpayers claiming EIC.

◇ **Review of the Service's Annual Electronic Return Originator (ERO) Suitability Screening Process for Processing Year 1999**

Audit Objective: Assess whether the annual suitability process, being conducted for the first time at the new consolidated site, is effective in assuring that only appropriate Electronic Return Originators (EROs) participate in the Electronic Filing program.

◇ **Analysis of the Service's Rejected ELF Process**

Audit Objective: Provide answers to Congressional inquiry regarding the ELF process (or detailed reasons why answers cannot be provided). Also, determine whether the Rejected ELF process effectively protects revenue at the least burden to the taxpayer.

◇ **Review of the Service's Enforcement Revenue Information System (ERIS)**

Audit Objective: Determine whether ERIS effectively and accurately processes data regarding enforcement efforts.

◇ **Review of the Efficiency and Effectiveness of the Electronic Fraud Detection System (EFDS)/Questionable Refund Detection Team (QRDT)**

Audit Objective: Determine whether the Service's QRDT program effectively identifies returns with substantive indications of fraud; and whether these returns are expeditiously and properly referred to field offices for criminal investigation, or to other service functions for civil action. Also, determine whether the Service's Electronic Fraud Detection System (EFDS) has been effectively implemented for the upcoming filing season in order to identify fraudulent refund returns and to stop fraudulent refunds.

◇ **Report of Revenue Protection Audit Coverage**

Audit Objective: Determine whether management can quantify the overall effectiveness of the Revenue Protection Program as required by the Government Performance and Results Act.

◇ **Follow-up: Effectiveness of Invalid Primary SSN**

Audit Objective: Determine whether management implemented recommendations regarding: taxpayers using invalid primary identification numbers and being issued refunds or EIC; taxpayers calling multiple times to get the EIC which they were entitled to; IDRS capability to permanently fix a taxpayer's record and release a frozen EIC; and taxpayer name control mismatches.

Procuring Goods and Services

◇ **Review of the IRS' Oversight of Modernization Efforts**

Audit Objective: Determine the IRS' effectiveness in overseeing the modernization efforts and monitoring expenditures. Evaluate the Government Program Management Office role in administering, coordinating and overseeing contractual activities.

◇ **Review of the IRS' Effectiveness in Monitoring Telecommunication Activities**

Audit Objective: Determine whether effective oversight is being provided to ensure quality telecommunications services are being delivered to the Treasury bureaus. Evaluate whether contractual provisions were met, the accuracy of billing information, and whether modernization needs are being met.

◇ **Review of the Effectiveness of the Pre-award and Post-award Practices for the Major Modernization Contracts**

Audit Objective: Determine the process used to award the major modernization contracts and whether the Service has clearly defined the contractors' responsibilities. Determine whether the appropriate contractual vehicle was used and whether appropriate oversight is being provided to properly administer the contracts.

◇ **Review of the IRS' Administration of the 8(a) Program**

Audit Objective: Determine whether the IRS is effectively using the 8(a) program. Evaluate policies and procedures for selecting an 8(a) vendor.

◇ **Follow-up Review of Interagency Agreements**

Audit Objective: Determine whether corrective actions effectively improved the use and administration of Interagency Agreements.

◇ **Follow-up Review of the Treasury Information Processing Support Services (TIPSS) Contract**

Audit Objective: Determine whether corrective actions in the 1998 Internal Audit of TIPSS have been taken to effectively improve the administration of the TIPSS Contract.

**Carry-over Audits from Fiscal Year 1998
(not part of an emphasis area)**

◇ **Review of Selected Components of the Multiple Virtual Storage (MVS) Operating System**

Audit Objective: Determine if the MVS operating system provides system security, integrity, and control that is adequate to safeguard sensitive data and ensure efficient use of system resources.

◇ **Review of Selected EDP Controls of the Electronic Management System (EMS) and TeleFile**

Audit Objective: Determine whether the system's data security controls provide reasonable assurance that transactions and data cannot be added or modified, through the operating system, without authorization. In addition, we will assess the adequacy of back-up and recovery procedures.

◇ **Review of UNISYS Operating System 2200 General System**

Audit Objective: Determine whether general controls in place over the UNISYS 2200 Operating System are sufficient to protect sensitive data. The scope of this review will encompass system policies as they relate to security controls. Review identification and authentication controls, discretionary access controls, and system (as opposed to IDRS) audit trail policies. Also, review disaster recovery and database back-up procedures to assess the mainframes' business continuity capabilities.

◇ **Review of Space Allocation in the National Office**

Audit Objective: Assess the effectiveness of controls to ensure the Service is in compliance with federal regulations and contractual agreements when providing government space to contractors in the Washington D.C. metropolitan area. Also, evaluate the effectiveness of planning and coordination between functional areas and Headquarters Operations for delivery of contractor space at the National Office.

◇ **Criminal Investigation Administrative Activities (Midstates Region)**

Audit Objective: Evaluate the effectiveness of first-line manager controls over administrative issues to prevent fraud, waste and abuse.

◇ **Estimated Tax Payment Requirements for Individual Taxpayers**

Audit Objective: Evaluate the effectiveness of IRS programs relating to estimated tax payments, and whether they have a positive impact on taxpayer burden, revenue, and operating costs.

◇ **Review of the Effectiveness of Service Advocacy Efforts**

Audit Objective: Assess the effectiveness of Service efforts to identify, evaluate, and resolve systemic issues affecting taxpayers. Specifically, we will: evaluate the effectiveness of the process used to identify potential systemic issues; assess the effectiveness of efforts to determine the significance of systemic issues; evaluate controls over the resolution of systemic issues; and identify and assess accomplishments to date.

◇ **Review of Business Resumption Plan Implementation at the Philadelphia Service Center (PSC)**

Audit Objective: Evaluate PSC's Business Resumption Plan Implementation to determine if the plan provides for an effective response and recovery from any business interruption(s).

◇ **Internal Controls in the Collection Field Function (Northeast Region)**

Audit Objective: Assess the adequacy of group manager controls designed to ensure the collection of delinquent taxes. Specifically, we want to (1) assess the adequacy of inventory controls for ensuring that Taxpayer Delinquent Accounts (TDAs) and Taxpayer Delinquency Investigations (TDIs) are properly assigned and accounted for, and (2) determine whether the group managers are continually monitoring priority cases and conducting sufficient reviews of revenue officer work.

◇ **Review of Levy Actions in the Collection Division (Northeast Region)**

Audit Objective: Determine whether levy actions in the Collection Division are conducted in accordance with law, regulations, policies and procedures; whether Collection Division levy actions violate taxpayers' rights; and the productivity of the levy actions and their impact on improving voluntary compliance.

◇ **Review of Cincinnati Service Center Property Assets Tracking System (PATs)**

Audit Objective: Evaluate the effectiveness of local efforts to ensure that the PATs accurately accounts for owned and leased property (non-ADP).

◇ **Improving Service to the Business Taxpayer**

Audit Objective: Assess how the business taxpayer currently deals with the IRS and identify any opportunities to reduce taxpayer burden, and improve responsiveness and timeliness, and increase Service productivity and effectiveness.

◇ **Review of Collection Estate Tax Efforts**

Audit Objective: Determine if the Service is effectively and efficiently processing Collection Estate Tax accounts.

◇ **Identifying and Resolving Business Accounts With Entity/Payment Problems**

Audit Objective: Determine whether there are cost effective methods for reducing the number of problem (erroneous or unnecessary due to inefficient or outdated processes or unclear understanding of tax law requirements) balance due notices and Taxpayer Delinquent Accounts for business accounts.